Business Leaders Are the Key to Breaking the "Ethics Barrier"

Compliance and Ethics

In March 2018, the Ethics & Compliance Initiative (ECI) released its National Business Ethics Survey (NBES), entitled The State of Ethics and Compliance in the Workplace. Since 1994, the ECI has conducted a longitudinal, cross-sectional study of workplace conduct from the employee's perspective. Now in its 11th iteration, the NBES provides valuable insights into the state of the US business community with respect to observed misconduct rates and the strength of companies' ethical culture. Here are some of their key findings in this year's report:

- Observed misconduct rates are on the decline and close to historic lows.
- More employees feel pressure to cut corners than ever before.
- Rates of reporting wrongdoing have doubled in the past two years.
- Little progress has been made across the country to implement the most important strategy for mitigating wrongdoing: building and sustaining strong ethical cultures.

This last finding is the most troubling. Despite massive investments in compliance and ethics programs since Chapter 8 of the Federal Sentencing Guidelines were first published in 1991, detailing the seven elements of an effective compliance program, we have made virtually no progress in improving our corporate cultures.

The ECI report drives the importance of strong ethical cultures home when it observes that, when compared to employees in strong cultures, employees in weak cultures are:

- Three times more likely to say they experienced pressure to compromise standards;
- Three times more likely to say they observed misconduct;
- 41 percent less likely to report observed misconduct; and,
- 27 percent more likely to say they experienced retaliation after reporting misconduct.

Astonishingly, despite the ubiquity of formal corporate compliance programs with thousands of compliance and ethics professionals toiling away, only 21 percent of all companies have a strong ethical culture. As the ECI sagely observes:

> These findings are troubling… After nearly a quarter century studying employee perspectives of ethics in the workplace, ECI has shown that companies can curb the negative impact of external forces, such as the economy, by taking steps to strengthen their cultures. Yet, this

However, ECI's prescription to improve the strength of ethical cultures in corporate America, although focused on the fundamentals, is the same mantra the business ethics community has been chanting for decades:

- Implement an ethics and compliance program with the elements defined in Chapter 8 of the US Federal Sentencing Guidelines. These programs are essential first-steps to establishing a strong ethical culture.
- Develop a statement of values. Define the standards that should guide employees' actions. Promote the values throughout the organization.
- Set performance goals for senior leaders and managers to visibly support the values of the organization and to reinforce the importance of employee reporting.

While this is sound advice for any organization, this prescription is not getting the job done. For decades now, we have been hitting an "ethical sound barrier," in which four out of five businesses fail to achieve strong ethical cultures.

To break this barrier, we must seek the answer to a basic question: What is the fundamental driver of human behavior in an organization? Is it policies, procedures, and codes of conduct? No. Given the policy diarrhea prevalent in most firms, if this were the case, corporate America would be living in an ethical nirvana. Is it clever oversight, auditing, and controls? No. These have been steadily tightening for decades, yet strong ethical cultures continue to elude the vast majority of companies. Is it training programs? No. Employees have been deluged with compliance training programs for years.

The key to achieving strong ethical cultures is as simple as it is difficult to achieve; strong ethical leaders at the top. Decades of work by social psychologists have consistently demonstrated that we follow our leaders. If they are corrupt, we are corrupt. If they are virtuous, we are virtuous. The reason only one in five US corporations has a strong ethical culture is that only one in five corporate leaders possess the five essential attributes of a strong ethical leader:

1. They know the greater good.
2. They are passionate about pursuing the greater good.
3. They choose the greater good — even when it is hard.
4. They make a habit of choosing the greater good.
5. They have the organizational savvy and moral courage to secure the greater good by getting others to follow.

It's a rare individual who possesses all these qualities. I've been senior counsel and compliance officer for seven multinational corporations and only encountered two CEOs who made the grade. In both cases, they were not motivated by extrinsic incentive programs like those recommended by the ECI. Instead, they had a genuine, deep passion for doing things right and the guts to act on their beliefs. The power of their leadership built strong ethical cultures by challenging all of us to raise the level of our game. To increase the number of firms with strong ethical cultures, we've got to find a way to produce more courageous, talented leaders who possess the necessary intrinsic motivation and courage to create such positive work environments.

There is no formula or quick fix that will produce such a crop of leaders, and, given the powerful

countervailing forces in for-profit corporations, it may never happen. However, that doesn't mean we shouldn't try. Find a way to connect with your leaders to understand the challenges they face and to help them develop their ethical leadership skills. Show them the correlation between strong ethical cultures and long-term financial performance and help them understand the key attributes of ethical leadership. If you can, insert yourself into your company's leadership development program to deliver the same message to upcoming leaders in your organization. Do the same with future leaders by giving lectures to students in undergraduate and graduate business programs.

Making progress will be difficult. It is bound to fail more often than it will succeed. But there is no avoiding the reality that our leaders' characters, rather than the elements of a compliance program, drive culture. Do your part to work with the leaders in your company to break the ethics barrier and sore high with the lucky few who have done the same.

NOTE

1 The National Business Ethics Survey has historically been fielded by the Ethics Resource Center (ERC). In 2014, ERC entered into a strategic alliance, and the organization is now known as the Ethics & Compliance Initiative.

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